

ESTATE TAX

Revenue Description

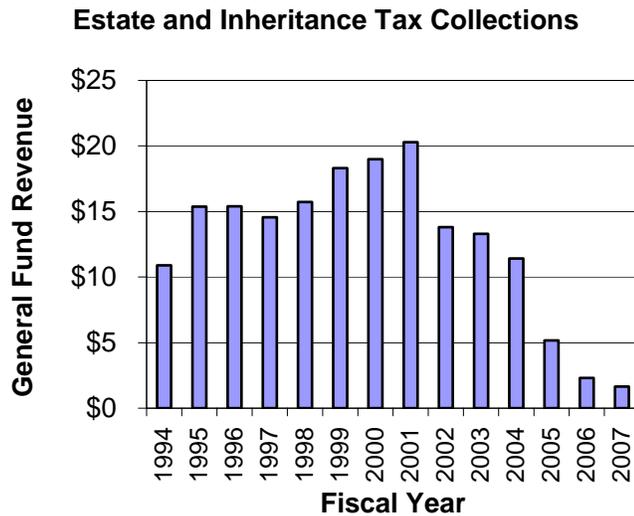
The federal estate tax provides a credit for state inheritance or estate taxes. The Montana estate tax is equal to the maximum credit allowed under the federal tax. The state inheritance tax was repealed by the passage of Legislative Referendum 116, and does not apply for deaths occurring on or after January 1, 2001. The federal deduction is being phased out, and there will be no estate tax for deaths on or after January 1, 2005.

Historical and Projected Revenue

Table 1 shows actual estate and inheritance tax collections for FY 1994 through FY 2004 and projected collections for FY 2005 through FY 2007. Collections through FY 2001 show a general upward trend with year-to-year variations. Collections decreased in FY 2002 through FY 2004 and are projected to continue to decrease.

Table 1
Estate and Inheritance Taxes - General Fund Revenue
(\$ millions)

	Fiscal Year	General Fund	Percent Change
A	1994	\$ 10.886	-15.41%
A	1995	\$ 15.382	41.31%
A	1996	\$ 15.404	0.14%
A	1997	\$ 14.562	-5.46%
A	1998	\$ 15.727	7.99%
A	1999	\$ 18.302	16.38%
A	2000	\$ 19.003	3.83%
A	2001	\$ 20.286	6.75%
A	2002	\$ 13.816	-31.89%
A	2003	\$ 13.306	-3.69%
A	2004	\$ 11.431	-14.09%
F	2005	\$ 5.171	-54.77%
F	2006	\$ 2.301	-55.50%
F	2007	\$ 1.651	-28.26%



Forecast Methodology and Projection Calculation

Inheritance and estate tax collections are affected by the growth in number and value of estates and by recent law changes. There are six steps to forecasting collections. The first step is to estimate what collections would have been without recent changes to the law. Combined inheritance and estate tax collections under the law prior to Legislative Referendum 116 are forecast using a statistical forecasting model. Each year's collections are forecast based on the number of deaths, a measure of wealth, per capita income, and previous collections.

The remaining five steps incorporate the effects of recent law changes. The second step is to allocate the forecast of inheritance and estate tax collections between the two taxes. This is necessary because the two taxes are being phased out differently. The third step is to adjust the forecast for increased inheritance tax exemptions enacted by the 1997 and 1999 legislatures. The fourth step is to allocate the fiscal year forecasts to the months within each fiscal year. This is necessary because the tax phase-outs are based on the calendar year when a person dies, not on the fiscal year when the tax is paid. The fifth step is to adjust these projected monthly collections for the phase-outs of the two taxes. The last step is to combine the adjusted monthly projections into final fiscal year projections.

Prior Law Collections

A statistical forecasting model was estimated from information for the period 1982 through 2000. Data after 2000 was not used because more recent collections are affected by the phase-out of the taxes. This model predicts combined inheritance and estate tax receipts using the number of deaths two years earlier, the average value of the Standard and Poor's 500 index of stock prices, personal income per capita, and receipts five years earlier. This model had the best overall statistical performance of a number of models tried and explains 96.7% of the variation in receipts in the period 1982 through 2000.

Table 2 shows details of the model. The middle column shows, for FY 1982 through FY 2000, the average values of receipts, deaths two years earlier, the Standard and Poor's 500 index two years earlier, personal income per capita, and receipts five years earlier.

Table 2		
Inheritance Tax Forecasting Model		
	Average FY1982- FY2000	Model Coefficient
Receipts (\$ million)	\$11.262	
Deaths 2 Years Ago	7,032.8	0.0074
S&P500 2 Years Ago	378.6	-0.0003
Personal Income Per Capita	\$15,973	0.0005
Receipts 5 Years Ago (\$ million)	\$8.684	-0.2409

The coefficients in the right-hand column of Table 2 give the amount that receipts increase or decrease when one of the explanatory factors increases by one. For example, the coefficient of 0.0056 for Standard and Poor's 500 two years earlier means that an increase of 1 in this stock price index would increase collections two years later by \$0.0056 million. An increase of 1,000 would increase collections by \$5.6 million. If the Table 2 model variables--deaths two years ago, personal income per capita, and receipts five years ago-- were all at their average values and the Standard and Poor's 500 index two years earlier was 1,000 above its average, the model predicts that receipts would be \$16.862 million ($\$11.262 + \$5.6 = \16.862).

The inheritance and estate taxes are taxes on transfers of wealth when a person dies. Stock prices and personal income help explain inheritance and estate tax collections because they are correlated with the average size of taxable estates. Deaths and stock prices two years ago explain inheritance and estate tax collections better than current or last year's deaths and stock prices. This is because it takes time to settle most estates. Seventy percent of estates with inheritance or estate tax liability take longer than a year to settle. Inheritance tax receipts grew significantly from FY 1982 to FY 2000 and also showed strong cycles. Including past receipts in the model helps capture those cycles.

Table 3 shows forecasts of deaths two years ago, the Standard and Poor's 500 index two years earlier, personal income per capita and receipts five years ago for FY 2005 through FY 2007. It also shows the resulting forecast of combined inheritance and estate tax collections under prior law. The forecast shows prior-law collections increasing over 6% in FY 2005 and FY 2007 and by almost 4% in FY 2006.

Table 3						
Prior Law Inheritance Tax Forecast						
Fiscal Year	Deaths 2 Years Ago	SP500 2 Years Ago	Personal Income Per Capita	Receipts 5 Years Ago (\$ million)	Collections (\$ million)	% Change
2005	8,624	964	\$ 27,849	\$ 19.003	\$ 26.359	6.36%
2006	8,736	1,115	\$ 29,051	\$ 20.593	\$ 27.345	3.74%
2007	8,849	1,140	\$ 30,341	\$ 19.372	\$ 29.095	6.40%

1997 and 1999 Law Changes

Some bequests are exempt from the inheritance tax. Other bequests are taxed at different rates depending on the relationship between the decedent and the heir, and on the size of the bequest. The 1997 and 1999 legislatures made several changes to the law. The 1997 legislature increased the amount of life insurance excluded from inheritance tax from \$50,000 to \$250,000. It made all tangible personal property of a closely held business exempt from inheritance tax if the heirs are lineal

descendents of the decedent's grandparents. It also temporarily changed the law so that bequests to a stepchild are exempt from the tax regardless of the age at which the heir became a stepchild of the decedent. Previously, bequests to a stepchild had been exempt only if the heir had become a stepchild before the age of eighteen. The 1999 legislature made this change permanent.

The Department of Revenue examined individual inheritance tax returns for 1998 through 2000 and estimated the fraction of taxable estates being passed to heirs affected by these law changes. For FY 2002, these law changes are estimated to have reduced inheritance tax liability by \$2.382 million. The impact of these law changes is assumed to grow in proportion to the total value of estates subject to inheritance tax. The model predicts that prior-law tax liability would be 22.1% higher in FY 2005 than in FY 2002, 26.7% higher in FY 2006 and 34.8% higher in FY 2007. This gives estimated reductions of \$2.725 million in FY 2005, \$2.826 million in FY 2006 and \$3.007 million in FY 2007.

Separating Inheritance and Estate Tax

Although they have been treated as one revenue source, the Department of Revenue has kept records identifying individual payments as either inheritance tax or estate tax. These records were examined for returns filed in fiscal years 1999, 2000, and part of 2001. The tax collected with these returns was 61.44% inheritance tax and 38.56% estate tax.

Table 4 shows projected inheritance tax and estate tax collections with adjustments for the changes in state law made by the 1997 and 1999 legislatures.

<p align="center">Table 4 Forecast Inheritance Tax and Estate Tax With 1997 and 1999 State Law Adjustments</p>						
Fiscal Year	Prior-Law Combined Forecast	Inheritance Tax %	Prior Law Inheritance Tax	Estate Tax	1997 and 1999 Law Adjustments	Adjusted Inheritance Tax
2005	\$26.359	61.44%	\$16.195	\$10.164	-\$2.725	\$13.470
2006	\$27.345	61.44%	\$16.801	\$10.544	-\$2.826	\$13.974
2007	\$29.095	61.44%	\$17.876	\$11.219	-\$3.007	\$14.869

The second column shows the forecast of collections produced by the statistical model. The third column shows the percentage of the combined forecast that is inheritance tax. The fourth column shows projected prior law inheritance tax collections, which equal the combined forecast in the second column multiplied by the percentage in the third column. The fifth column shows projected estate tax collections, which equal the combined forecast in the second column less prior law

inheritance tax in the fourth column. The sixth column shows amounts that must be subtracted from projected inheritance tax because of the 1997 and 1999 law changes. The seventh column shows the adjusted forecast of inheritance tax.

UMonthly Collections

Inheritance and estate tax collections are not steady throughout the year. They tend to be highest in October and June and lowest in December and March. Table 5 shows projected receipts for FY 2005 through FY 2007 distributed across months. The first column lists the months in a fiscal year, and the second column shows the average fraction of annual receipts in each month in FY 1994 through FY 2001. The third through fifth columns show projected inheritance tax collections for FY 2005 through FY 2007 distributed across months in these proportions. The sixth through eighth columns show projected estate tax collections distributed in the same way.

Table 5							
Monthly Inheritance Tax and Estate Tax Collections							
Adjusted for 1997 and 1999 State Law Changes							
Month	% of Collec- tions	Inheritance Tax			Estate Tax		
		FY 2005	FY 2006	FY2007	FY 2005	FY 2006	FY2007
July	7.30%	\$0.984	\$1.021	\$1.086	\$0.742	\$0.770	\$0.819
August	9.10%	\$1.226	\$1.272	\$1.353	\$0.925	\$0.959	\$1.021
September	7.13%	\$0.960	\$0.996	\$1.060	\$0.725	\$0.752	\$0.800
October	12.57%	\$1.693	\$1.757	\$1.869	\$1.278	\$1.325	\$1.410
November	7.69%	\$1.037	\$1.075	\$1.144	\$0.782	\$0.811	\$0.863
December	5.57%	\$0.750	\$0.778	\$0.827	\$0.566	\$0.587	\$0.624
January	8.45%	\$1.138	\$1.180	\$1.256	\$0.859	\$0.891	\$0.948
February	7.87%	\$1.060	\$1.099	\$1.170	\$0.800	\$0.830	\$0.883
March	6.61%	\$0.890	\$0.924	\$0.983	\$0.672	\$0.697	\$0.741
April	8.75%	\$1.179	\$1.223	\$1.302	\$0.890	\$0.923	\$0.982
May	8.32%	\$1.120	\$1.162	\$1.237	\$0.845	\$0.877	\$0.933
June	10.64%	\$1.434	\$1.487	\$1.582	\$1.082	\$1.122	\$1.194
Total	100.00%	\$13.470	\$13.974	\$14.869	\$10.164	\$10.544	\$11.219

Phase-Out of Taxes

Legislative Referendum 116 repealed the inheritance tax. The tax does not apply to the estates of persons dying after December 31, 2000.

The Montana estate tax is equal to the maximum credit for state taxes allowed against federal estate taxes. The federal Economic Growth and Tax Relief Reconciliation Act of 2001 phases out the federal estate tax and eliminates it for the

estates of persons dying after December 31, 2009. It reduces the credit for state taxes on a faster schedule, eliminating it for the estates of persons dying after December 31, 2004.

The maximum credit for state taxes is calculated from a schedule that depends on the net taxable estate. The 2001 federal tax act leaves the schedule unchanged, but sets the maximum credit at 75% of the amount from the schedule for deaths in 2002, 50% for deaths in 2003, and 25% for deaths in 2004.

The 2001 federal tax act also increases the amount of each estate that is exempt from federal estate tax. For each estate, this reduces the net taxable estate, which reduces the maximum state credit. The exemption currently is \$675,000 for deaths before 2002. Under previous federal law, the exemption was \$700,000 for deaths in 2002 and 2003 and \$850,000 for deaths in 2004. The new law increased the exemption to \$1 million for deaths in 2002 and 2003, and to \$1.5 million for deaths in 2004.

Together, these changes in federal law will reduce estate tax liability by 43% for deaths in 2002, 62% for deaths in 2003, and 86.5% for deaths in 2004.

However, it takes time to settle most estates. Some pre-2001 estates will continue to be settled and pay inheritance tax each year for at least the next ten years. Most estates paying estate tax in any year will be from previous years. Thus, inheritance and estate tax collections will decline over a period of several years.

The time between death and settling of the estate was calculated for inheritance and estate tax records from FY 1999, FY 2000, and the first quarter of FY 2001. Approximately half of returns paying inheritance tax were filed within 12 months of death. Seventy percent were filed within 18 months, and 85% within 36 months. Fewer estates paying estate tax are settled quickly. Only 6% were filed in less than nine months, and 34% were filed within 12 months. Seventy-five percent were filed within 18 months, and 92% within 36 months.

As the inheritance and estate taxes are phased out, the tax collected each month will be a percentage of the tax that would have been collected under prior law. For the inheritance tax, this is the percentage of estates where death was before January 1, 2001.

For the estate tax, estates where death was before January 1, 2002 will pay the same tax as under prior law. Estates where death was in calendar year 2002 will pay 43% less tax than under prior law. Estates where death was in calendar year 2003 will pay 62% less tax than under prior law. Estates where death is in calendar year 2004 will pay 86.5% less than under current law.

Thus, estate tax collections in any month will be the following percentage of prior law collections: the percentage of estates where death was before 2002 plus 57% (100% - 43%) times the percentage of estates where death was in 2002 plus 38%

times the percentage of estates where death was in 2003 plus 13.5% times the percentage of estates where death was in 2004.

Table 6 shows the projected year of death for estates settled in FY 2005 through FY 2007. The first two columns show the fiscal year and month. The third column shows the percentage of estates that would owe inheritance tax under prior law where death was before January 1, 2001. Of estates settled in July 2005 that would owe inheritance tax under prior law, 11.76% are projected to be for deaths before January 2001. This percentage is projected to decline every month and be 5.72% in June 2007.

Table 6						
Year of Death for Estates Settled in Fiscal Years 2005 through 2007						
Percent of Value of Estates Taxable under Prior Law						
Month Estate Settled		Inheritance Tax	Estate Tax			
Fiscal Year	Month	Death Before 2001	Death Before 2002	Death in 2002	Death in 2003	Death in 2004
2005	July	11.76%	11.53%	14.12%	71.29%	3.06%
	August	11.34%	10.12%	11.76%	73.88%	4.24%
	September	10.93%	9.41%	10.82%	73.41%	6.35%
	October	10.61%	9.41%	9.65%	62.35%	18.59%
	November	10.40%	8.94%	8.94%	56.71%	25.41%
	December	10.09%	8.71%	7.76%	53.18%	30.35%
	January	9.80%	8.24%	7.29%	50.82%	33.65%
	February	9.59%	7.76%	6.59%	48.71%	36.94%
	March	9.44%	7.53%	6.59%	44.71%	41.18%
	April	9.15%	7.06%	6.35%	41.41%	44.71%
	May	8.98%	7.06%	5.65%	38.35%	47.76%
	June	8.84%	7.06%	4.47%	31.29%	54.35%
2006	July	8.69%	6.82%	4.71%	14.12%	71.29%
	August	8.50%	6.12%	4.00%	11.76%	73.88%
	September	8.36%	6.12%	3.29%	10.82%	73.41%
	October	8.21%	5.88%	3.53%	9.65%	62.35%
	November	8.02%	5.41%	3.53%	8.94%	56.71%
	December	7.92%	4.47%	4.24%	7.76%	53.18%
	January	7.85%	4.00%	4.24%	7.29%	50.82%
	February	7.65%	3.76%	4.00%	6.59%	48.71%
	March	7.52%	3.53%	4.00%	6.59%	44.71%
	April	7.37%	3.53%	3.53%	6.35%	41.41%
	May	7.27%	3.29%	3.76%	5.65%	38.35%
	June	7.08%	3.29%	3.76%	4.47%	31.29%
2007	July	6.98%	3.29%	3.53%	4.71%	14.12%
	August	6.79%	3.29%	2.82%	4.00%	11.76%
	September	6.64%	3.29%	2.82%	3.29%	10.82%
	October	6.45%	3.29%	2.59%	3.53%	9.65%
	November	6.39%	3.29%	2.12%	3.53%	8.94%
	December	6.27%	2.82%	1.65%	4.24%	7.76%
	January	6.14%	2.59%	1.18%	4.00%	6.59%
	February	6.10%	2.59%	0.94%	4.00%	6.59%
	March	5.97%	2.59%	0.94%	3.53%	6.35%
	April	5.91%	2.59%	0.71%	3.76%	5.65%
	May	5.79%	2.59%	0.71%	3.76%	4.47%
	June	5.72%	2.59%	0.71%	3.53%	4.71%

The four right-hand columns show the projected distribution of year of death for estates that would owe estate tax under prior law. The fourth column shows the percentage of these estates where death was before January 1, 2002. The fifth column shows the percentage where death was in 2002, the sixth column shows the percentage where death was in 2003, and the seventh column shows the percentage where death was in 2004.

The percentage of deaths before 2002 is 11.53% in July 2005 and declines every month. It is 2.59% in June 2007. The percentage of deaths in 2002 is 14.12% in July 2005. It decreases every month and is 0.71% in June 2007. The percentage where death is in 2003 is 71.29% in July 2005 and declines every month to 3.53% in June 2007. The percentage where death was in 2004 is 3.06% in July 2005. It increases to 73.88% in August 2006 and then declines to 4.71% in June 2007.

The percentages in the four right-hand columns of the table sum to 100% through March 2005. Beginning in April 2005, these columns sum to less than 100% because a percentage of deaths are projected to be in 2005 and later years. Since these estates will pay no tax, these percentages are not shown.

Table 7, on the following page, shows, for each month in FY 2005 through FY 2007, projected current law inheritance and estate tax collections as a percentage of projected prior law collections.

The first two columns show the fiscal year and the month. The third column shows current law inheritance tax collections as a percentage of prior law collections. This equals the percentage of pre-2001 estates shown in the third column of Table 6.

The fourth column shows current law taxes from pre-2002 estates as a percentage of total prior law taxes. It is the percentage of estates where death was before 2002, shown in the fourth column of Table 6. The fifth through seventh columns show taxes from estates settled in 2002 through 2004 as a percentage of total prior law taxes. In each column, this is the percentage of estates with deaths in that year, shown in the fifth through seventh columns of Table 6, multiplied by the percentage of prior law tax due for deaths in each year. Thus, the percentages in the fifth column equal the percentage of estates with 2002 deaths, shown in the fifth column of Table 7, multiplied by 57%. The sixth column shows the percentage of estates with 2003 deaths multiplied by 38%. The seventh column shows the percentage of estates with 2004 deaths multiplied by 13.5%.

For the first month of FY 2005, current law inheritance tax collections are projected to be 11.8% of prior law collections, and current law estate tax collections are projected to be 47.1% of prior law collections. Inheritance tax collections are projected to decrease to 5.7% of prior law collections by the last month of FY 2007. Estate tax collections are projected to decline to 5.0% of prior law collections by the last month of FY 2007.

Table 7
Current Law Inheritance and Estate Tax Liability
Percentage of Prior Law Liability

Fiscal Year	Month	Inheritance Tax	Estate Tax				Total
			Pre-2002 Deaths No Reduction	2002 Deaths 43% Reduction	2003 Deaths 62% Reduction	2004 Deaths 86% Reduction	
2005	July	11.8%	11.5%	8.0%	27.1%	0.4%	47.1%
	August	11.3%	10.1%	6.7%	28.1%	0.6%	45.4%
	September	10.9%	9.4%	6.2%	27.9%	0.9%	44.3%
	October	10.6%	9.4%	5.5%	23.7%	2.5%	41.1%
	November	10.4%	8.9%	5.1%	21.5%	3.4%	39.0%
	December	10.1%	8.7%	4.4%	20.2%	4.1%	37.4%
	January	9.8%	8.2%	4.2%	19.3%	4.5%	36.2%
	February	9.6%	7.8%	3.8%	18.5%	5.0%	35.0%
	March	9.4%	7.5%	3.8%	17.0%	5.6%	33.8%
	April	9.2%	7.1%	3.6%	15.7%	6.0%	32.4%
	May	9.0%	7.1%	3.2%	14.6%	6.5%	31.3%
	June	8.8%	7.1%	2.5%	11.9%	7.3%	28.8%
2006	July	8.7%	6.8%	2.7%	5.4%	9.6%	14.9%
	August	8.5%	6.1%	2.3%	4.5%	10.0%	12.9%
	September	8.4%	6.1%	1.9%	4.1%	9.9%	12.1%
	October	8.2%	5.9%	2.0%	3.7%	8.4%	11.6%
	November	8.0%	5.4%	2.0%	3.4%	7.7%	10.8%
	December	7.9%	4.5%	2.4%	2.9%	7.2%	9.8%
	January	7.8%	4.0%	2.4%	2.8%	6.9%	9.2%
	February	7.7%	3.8%	2.3%	2.5%	6.6%	8.5%
	March	7.5%	3.5%	2.3%	2.5%	6.0%	8.3%
	April	7.4%	3.5%	2.0%	2.4%	5.6%	13.5%
	May	7.3%	3.3%	2.1%	2.1%	5.2%	12.8%
	June	7.1%	3.3%	2.1%	1.7%	4.2%	11.4%
2007	July	7.0%	3.3%	2.0%	1.8%	1.9%	9.0%
	August	6.8%	3.3%	1.6%	1.5%	1.6%	8.0%
	September	6.6%	3.3%	1.6%	1.3%	1.5%	7.6%
	October	6.4%	3.3%	1.5%	1.3%	1.3%	7.4%
	November	6.4%	3.3%	1.2%	1.3%	1.2%	7.0%
	December	6.3%	2.8%	0.9%	1.6%	1.0%	6.4%
	January	6.1%	2.6%	0.7%	1.5%	0.9%	5.7%
	February	6.1%	2.6%	0.5%	1.5%	0.9%	5.5%
	March	6.0%	2.6%	0.5%	1.3%	0.9%	5.3%
	April	5.9%	2.6%	0.4%	1.4%	0.8%	5.2%
	May	5.8%	2.6%	0.4%	1.4%	0.6%	5.0%
	June	5.7%	2.6%	0.4%	1.3%	0.6%	5.0%

Table 8 shows the calculation of projected current law inheritance and estate tax collections.

Table 8							
Monthly Current Law Inheritance and Estate Tax Collections							
Fiscal Year	Month	Inheritance Tax			Estate Tax		
		Prior Law Tax	Current Law %	Current Law Tax	Prior Law Tax	Current Law %	Current Law Tax
2005	July	\$0.984	11.8%	\$0.116	\$0.742	47.1%	\$0.349
	August	\$1.226	11.3%	\$0.139	\$0.925	45.4%	\$0.420
	September	\$0.960	10.9%	\$0.105	\$0.725	44.3%	\$0.321
	October	\$1.693	10.6%	\$0.180	\$1.278	41.1%	\$0.525
	November	\$1.037	10.4%	\$0.108	\$0.782	39.0%	\$0.305
	December	\$0.750	10.1%	\$0.076	\$0.566	37.4%	\$0.212
	January	\$1.138	9.8%	\$0.112	\$0.859	36.2%	\$0.311
	February	\$1.060	9.6%	\$0.102	\$0.800	35.0%	\$0.280
	March	\$0.890	9.4%	\$0.084	\$0.672	33.8%	\$0.227
	April	\$1.179	9.2%	\$0.108	\$0.890	32.4%	\$0.289
	May	\$1.120	9.0%	\$0.101	\$0.845	31.3%	\$0.265
	June	\$1.434	8.8%	\$0.127	\$1.082	28.8%	\$0.312
		TOTAL	\$13.470	10.1%	\$1.355	\$10.164	37.5%
2006	July	\$1.021	8.7%	\$0.089	\$0.770	14.9%	\$0.114
	August	\$1.272	8.5%	\$0.108	\$0.959	12.9%	\$0.123
	September	\$0.996	8.4%	\$0.083	\$0.752	12.1%	\$0.091
	October	\$1.757	8.2%	\$0.144	\$1.325	11.6%	\$0.153
	November	\$1.075	8.0%	\$0.086	\$0.811	10.8%	\$0.088
	December	\$0.778	7.9%	\$0.062	\$0.587	9.8%	\$0.058
	January	\$1.180	7.8%	\$0.093	\$0.891	9.2%	\$0.082
	February	\$1.099	7.7%	\$0.084	\$0.830	8.5%	\$0.071
	March	\$0.924	7.5%	\$0.069	\$0.697	8.3%	\$0.058
	April	\$1.223	7.4%	\$0.090	\$0.923	13.5%	\$0.125
	May	\$1.162	7.3%	\$0.085	\$0.877	12.8%	\$0.112
	June	\$1.487	7.1%	\$0.105	\$1.122	11.4%	\$0.128
		TOTAL	\$13.974	7.9%	\$1.098	\$10.544	11.4%
2007	July	\$1.086	7.0%	\$0.076	\$0.819	9.0%	\$0.074
	August	\$1.353	6.8%	\$0.092	\$1.021	8.0%	\$0.082
	September	\$1.060	6.6%	\$0.070	\$0.800	7.6%	\$0.061
	October	\$1.869	6.4%	\$0.120	\$1.410	7.4%	\$0.105
	November	\$1.144	6.4%	\$0.073	\$0.863	7.0%	\$0.061
	December	\$0.827	6.3%	\$0.052	\$0.624	6.4%	\$0.040
	January	\$1.256	6.1%	\$0.077	\$0.948	5.7%	\$0.054
	February	\$1.170	6.1%	\$0.071	\$0.883	5.5%	\$0.049
	March	\$0.983	6.0%	\$0.059	\$0.741	5.3%	\$0.039
	April	\$1.302	5.9%	\$0.077	\$0.982	5.2%	\$0.051
	May	\$1.237	5.8%	\$0.072	\$0.933	5.0%	\$0.047
	June	\$1.582	5.7%	\$0.090	\$1.194	5.0%	\$0.059
		TOTAL	\$14.869	6.3%	\$0.930	\$11.219	6.4%

For each month, the third column shows prior law inheritance tax from Table 4, and the sixth column shows prior law estate tax from Table 4. The fourth and seventh columns show current collections as a percentage of prior law collections from Table 7. The fifth and eighth columns show current law collections, which equal prior law collections in the third and sixth columns multiplied by the percentages in the fourth and seventh columns.

Inheritance tax collections are projected to be \$1.355 million in FY 2005, \$1.098 million in FY 2006 and \$0.930 million in FY 2007. Estate tax collections are projected to be \$3.815 million in FY 2005, \$1.203 million in FY 2006 and \$0.721 million in FY 2007. Total collections are projected to be \$5.171 million in FY 2005, \$2.301 million in FY 2006 and \$1.651 million in FY 2007.

Forecast Risks

As the inheritance and estate taxes are phased out, collections will become more variable because variations in taxes paid by individual estates will become relatively more significant. Only a few large estates are settled each year and some of them pay little or no tax. This is because bequests to the decedent's spouse are exempt, and bequests to close relatives are taxed at reduced rates. From 1994 through 2003, there were an average of seven estates with an inflation-adjusted value of \$5 million or more per year. On average, these estates paid inheritance and estate taxes equal to 1.8% of the value of the estate, and tax paid by these estates was 10% of the total. Thirty-six percent of these estates paid no tax. As the number of estates filing decreases each year, it becomes more likely that the tax paid by large estates will differ significantly from the average. With seven large estates filing in a year, there is about a 5% probability that either all or none of them will pay taxes. With two large estates filing a year, there is over a 50% probability that either all or none of them will pay taxes.

Collections in FY 2004 were about \$4 million or 55% higher than predicted because five large estates paid an average of over \$1 million each. Based on the experience of previous years, one estate paying tax of \$1 million or more was expected. The variation in future years is unlikely to be this large, but is still likely to be larger in relative terms than in the past.